UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

CHAMBERS OF
RONALD J. HEDGES
UNITED STATES MAGISTRATE JUDGE

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LETTER-OPINION AND ORDER
ORIGINAL FILED WITH THE CLERK OF THE COURT

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Re: **REED ELSEVIER, INC., v. INHERENT.COM, INC.,**
05-cv-4048 (WJM)

Dear Counsel

INTRODUCTION

This matter comes before me on the motion of defendant Inherent.Com, Inc., a/k/a Inherent Inc. ("Inherent") for an order to dismiss this action, filed against it by plaintiff Reed Elsevier, Inc. ("Reed"), the parent corporation to Martindale-Hubbell ("MH") or, in the alternative, to transfer venue to the Northern District of California or the District of Oregon. I have considered the papers submitted in support of and in opposition to the motion. There was no oral argument. Rule 78.

PROCEDURAL BACKGROUND

Reed filed the Complaint *sub judice* in the Superior Court of New Jersey on July 18, 2005. Eleven days later, Inherent filed an identical action against MH in the Superior Court of

EXHIBIT E

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California, San Francisco County. Soon thereafter, Inherent removed the New Jersey state action to this Court. Meanwhile, Reed and MH removed the California state action to the Northern District Court of California and then moved to dismiss that action as being duplicative or, in the alternative, to transfer venue to this Court. Reed's motion is pending before the Northern District of California.

FACTUAL BACKGROUND

MH is a national and international business with its principal place of business in New Jersey. MH and Reed provide products and services targeting legal practitioners. Inherent is a national and international corporation registered to do business in Oregon, where it provides, among other services, Internet website development and hosting for legal practitioners. Inherent's President, Debra Kamys, recently submitted a certification attesting that Inherent has relocated its business to California and moved key employees and executives to new offices in San Francisco. MH and Reed submitted a certification in which they attested to conducting a diligent search, the results of which show that Inherent is not registered to do business in California and has no telephone listing in the San Francisco business directory.

Since the mid-1990s, MH and Inherent collaborated on several business ventures, including website design, building, hosting and maintenance. In connection with this long-term relationship, MH and Inherent entered into a Marketing Alliance Agreement ("MAA") on August 2, 1996, which states, in relevant part:

> This agreement shall be interpreted, governed and controlled by the internal laws of the state of New Jersey, without reference to principles of conflicts of laws.

The MAA provides for mandatory arbitration/ mediation, requiring all disputes to be conducted by a New Jersey or New York arbitrator. The MAA was in effect through 2002. As a result of this business venture between MH and Inherent from 1996 through 2002, Inherent received annual revenues in excess of $200,000. Following the expiration of the MAA, the parties continued to do business on friendly terms. Inherent earned $93,000 in 2003, $67,000 in 2004, and approximately $78,000 thus far this year.

To date, Inherent has received revenues in excess of $1,000,000 doing business with MH, a registered New Jersey corporation. Further, Inherent continues to host four of MH's websites. In connection with the parties' continuous business relations extending from 1996 through the present, Inherent representatives visited MH in New Jersey approximately 40 times, 35 of which visits were made by Kamys. The parties also conducted several hundred telephone calls, sent over 1,000 e-mails and exchanged countless mail and facsimile communications.

The events leading up to this litigation began with discussions pertaining to MH's potential acquisition of Inherent which began in August 2004. Soon thereafter, MH and Inherent executed a Non-Disclosure Agreement ("NDA"), allowing MH to freely explore the possibility of the purchase. The NDA states in relevant part:

> This agreement shall be governed by the laws of the State of New Jersey, USA, regardless of the laws that might otherwise apply under applicable principles of conflict of law.

The NDA is valid through August 2006.

A year following the execution of the NDA, Kamys traveled to New Jersey, made a presentation, and conducted several meetings with key MH executives. Extensive negotiations continued thereafter led to the execution of a non-binding letter of interest allowing MH to examine Inherent's records and financial data in order to further assess the feasibility of a purchase. The letter of interest specifically states that its terms should not be interpreted to be a purchase agreement. The merits of Inherent's entitlement to enforcement of a sale is not the subject of this motion.

ANALYSIS

I. Jurisdiction

The MAA and NDA provide for the application of the laws of the state of New Jersey to any disputes arising from the business relationship contemplated thereunder. However, neither agreement specifies the jurisdiction to which all parties submit. Inherent removed this action from the Superior Court of New Jersey and is now seeking a transfer of the same to the Northern District of California. Because, removal, in itself, does not constitute a waiver of any defenses which could have been raised in the state court, including those pertaining to lack of personal jurisdiction, I must now address whether the Superior Court of New Jersey had jurisdiction over Inherent.

> The jurisdiction of the federal court over a cause removed from the state courts is derived from the question of the state court's jurisdiction; if the state court lacked jurisdiction of subject matter or parties, then the federal court acquires none, even though it might have jurisdiction in a like claim first brought in the federal system.

Stapleton v. Two Million Four Hundred Thirty-Eight Thousand, One Hundred and Ten Dollars, 454 F.2d 1210, 1213 (3d Cir. 1972).

A district Court may exercise personal jurisdiction over non-resident defendant only to the extent permitted by the state in which it sits. Fed R. Civ. P. 4(e); see also Mellon Bank (East) PSFS, Nat'l Ass'n v. Farino, 960 F.2d 1217, 1221 (3d Cir. 1992). New Jersey Court Rule 4:4-4 permits the exercise of *in personam* jurisdiction to the extent permissible under the Due Process Clause of the Fourteenth Amendment. United States Golf Corp. Ass'n v. United States Amateur Golf Ass'n, 690 F. Supp. 317, 319 (D.N.J. 1988); Avdel Corp. v. Mecure, 58 N.J. 264, 266 (1971). Under the Due Process Clause, personal jurisdiction exists where a plaintiff demonstrates that the defendant has "certain minimum contacts with [the forum state] such that the maintenance of the suit does not offend 'traditional notions of fair play and substantial justice.'" International Shoe Co., v. Washington, 326 U.S. 310, 316 (1945).

A defendant has minimum contacts with a forum state when it commits some act or acts by which it "purposefully avails itself of the privilege of conducting activities within the forum state, thus invoking the benefits and protections of its law." Hanson v. Denckla, 357 U.S. 235, 253 (1958). These contacts must be of the nature such that a nonresident defendant should "reasonably anticipate being haled into court [in the forum state]." Worldwide Volkswagen Corp. v. Woodson, 444 U.S. 286, 297 (1980). "Jurisdiction is proper . . . where the contacts proximately result from actions by the defendant himself that create a 'substantial connection' with the forum state." Burger King Corp. v. Rudzewicsz, 471 U.S. 462, 475 (1985).

In Burger King, the Supreme Court stated that it is an inescapable fact of commercial life that a substantial amount of business is transacted solely by mail and wire communications across state lines, thus obviating the need for physical presence within a state in which business is conducted. "So long as a commercial actor's efforts are 'purposefully directed' toward residents of the state, we have consistently rejected the notion that an absence of physical contacts can defeat personal jurisdiction there." Burger King, 471 U.S. at 476. "[M]ere transmittal of messages by mail or telephone within the state is not the critical factor, it is the nature of the contact." Lebel v. Everglades Marina, Inc., 115 N.J. 317, 325 (1989) (emphasis added).

When a defendant challenges personal jurisdiction, the burden is upon the plaintiff to make a *prima facie* showing that personal jurisdiction over the defendant exists by "establishing with reasonable particularity sufficient contacts between the defendant and the forum state." Provident Nat'l Bank v. Cal. Fed. Sav. & Loan Ass'n, 819 F.2d 434, 437 (3d Cir. 1987).

There are two tests regarding personal jurisdiction: general jurisdiction and specific jurisdiction. Provident Nat'l Bank, 819 F.2d at 437. General jurisdiction is satisfied when a claim is unrelated to a defendant's contacts with the forum state but the nonresident defendant has "continuous and systematic" contacts with the forum state. Helicopteros Nacionales de Columbia S.A., v. Hall, 466 U.S. 408, 416 (1984). Specific jurisdiction is satisfied when the cause of action sued upon arises from a nonresident's activities within the forum state. McGee v. Int'l Life Ins. Co., 355 U.S. 220, 223 (1957).

It is uncontested that MH and Inherent began their business relations in 1996. They executed the MAA, in which they set forth the parameters of their anticipated long term business relationship. The MAA sets forth that any disputes arising thereunder must be resolved in accordance with New Jersey law and must be submitted to a New Jersey or a New York arbitrator. Since then, the parties exchanged many communications and visits. As a result of this continuous relationship, Inherent generated revenues in excess of a $1,000,000 doing business with MH, a business located in New Jersey. Inherent also continues to host four websites of MH's clienteles and receive revenues associated with its services.

In relation to the subject dispute arising from the discussions and negotiations pertaining to the acquisition of Inherent, Inherent's contacts with MH consist of telephone, e-mail, mail and facsimile communications. The exchanges between the parties concerning the purchase involved extensive negotiations over a period of approximately one year. To guarantee open and secure communications, the parties executed the NDA on November 1, 2004, effective for an anticipated negotiation period extending over two years. To entice a purchase, Inherent's President traveled to New Jersey for one day, during which she made a presentation and met with MH's key executives.

After a year of extensive negotiations and continuous communications, the parties agreed on tentative sale parameters which were set forth in a non-binding letter of interest executed on June 15, 2005. The purpose of the letter was in contemplation of further examination of Inherent's records and financial data.

The business relationship between MH and Inherent extending over a period of approximately ten years is substantial and systematic. Inherent should have expected to be haled into New Jersey courts when it executed agreements requiring the application of New Jersey law. Therefore, the Superior Court of New Jersey had personal jurisdiction over the defendant.

III. Forum and the First Filed Rule

28 U.S.C. § 1404(a) provides that, "[f]or the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to any other district or division where it might have been brought." 28 U.S.C. § 1391(a) provides in part:

> [A] civil action wherein jurisdiction is founded only on diversity of citizenship may, except as otherwise provided by law, be brought only in (1) a judicial district where any defendant resides, if all defendants reside in the same State, (2) a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is situated, or (3) a judicial district in which any defendant is subject to personal jurisdiction at the time the action is commenced, if there is no district in which the action may otherwise be brought.

28 U.S.C. § 1391(c) provides that "[f]or purpose of venue . . .a defendant that is a corporation shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time of the action is commenced."

As a general rule, a plaintiff's choice of forum is to be given the highest deference. Shutte v. Armco Steel Corp., 431 F.2d 22, 25 (3d Cir. 1970), cert. denied, 401 U.S. 910 (1971). "The decision to transfer is in the court's discretion, but a transfer is not to be liberally granted." Shutte, 431 F.2d at 25. Accordingly, "[t]he burden is on the moving party to establish that a balancing of proper interests weigh in favor of a transfer and . . . unless the balance of convenience of the party is strongly in favor of defendant, the plaintiff's choice of forum should prevail." Shutte, 431 F.2d at 25; see Lacey v. Cessna Aircraft Co., 862 F.2d

38, 43-44 (3d Cir. 1988) (defendant must demonstrate that alternative forum is actually more convenient rather than merely adequate). In deciding a motion to transfer venue, the court must weigh the convenience of the parties, the convenience of witness, and the interest of justice. AT&T v. MCI Communications Corp., 736 F. Supp. 1294, 1305 (D.N.J. 1990). The primary goals of transfer of venue are to "prevent the waste of 'time, energy and money' and to 'protect litigants, witnesses and the public against unnecessary inconvenience and expense.'" Van Dusen v. Barrack, 376 U.S. 612, 616 (1964) (citing Cont'l Grain Co., v. Barge FBL-585, 364 U.S. 19, 26-27 (1960)).

In Gulf Oil Corp. v. Gilbert, 330 U.S. 501, 508 (1947), the Supreme Court analyzed a motion to transfer under the guidance of two broad interests. The most important interest to be considered is the private interest of the litigants. Gulf Oil Corp., 330 U.S. at 508. Considerations such as the relative ease of access to sources of proof, the availability of compulsory process for attendance of unwilling witnesses, the cost of obtaining willing witnesses, and the possibility of viewing the premises are also factors to be considered under the private interest of litigants. Gulf Oil Corp., 330 U.S. at 508.

The second interest that a court should consider is the public interest involved. Gulf Oil Corp., 330 U.S. at 508. Public interest factors include avoiding court congestion and imposing jury duty on those citizens who have some relation to the litigation. Gulf Oil Corp., 330 U.S. at 508-09. The Supreme Court went on to discuss "an appropriateness, too, in having the trial of a diversity case in a forum that is at home with the state law that must govern the case, rather than having a court in some other forum untangle problems in conflict of laws, and in law foreign to itself." Gulf Oil Corp., 330 U.S. at 509.

The first-filed rule is implicated when "two or more cases covering the same subject matter are filed in different jurisdiction." Fisher & Porter Co. v. Moorco Int'l Inc., 869 F. Supp. 323, 324-25 (E.D. Pa. 1994). The rule states that, "[i]n all cases of federal concurrent jurisdiction, the court which has first possession of the subject must decide it." Smith v. M'Iver, 22 U.S. 532, 535 (1824). The rule is designed to avoid duplicative litigation and to facilitate "wise judicial administration, giving regard to conservation of judicial resources and comprehensive disposition of litigation." Kerotest Mfg. Co. v. C-O-Two Fire Equip. Co., 342 U.S. 180, 183 (1952); see Crosley Corp. v. Hazeltine Corp., 122 F.2d 925, 930 (3d Cir. 1941).

The district courts have the discretion to retain jurisdiction in situation in which the first-filed rule is implicated. E.E.O.C. v. Univ. of Pa., 850 F.2d 969, 971 (3d. Cir. 1988). "[I]nvocation of the rule will usually be the norm, not the exception. Courts must be presented with exceptional circumstances before exercising their discretion to depart from the first-filed rule." E.E.O.C., 850 F.2d at 979. Exceptional circumstances include: bad faith, forum shopping, "when the second-filed action had developed further than the initial suit," and "when the first-filing party instituted suit in one forum in anticipation of the opposing party's imminent suit in another, less favorable, forum." E.E.O.C., 850 F.2d at 976.

The subject action was originally filed in the Superior Court of New Jersey on July 18, 2005. In her certification, Kamys states that Inherent relocated its business to California prior to MH's filing of its action in New Jersey. On the basis of its status as a resident of the state of California, Inherent seeks to transfer the case to the Northern District of California. Exhibit A attached to her certification shows a registration issuance date of August 23, 2005, approximately one month after MH's New Jersey suit was filed. No information was provided as to the length of the process of obtaining business registration in the California. More importantly, Inherent's new California business address is identical to that listed for its California counsel, Patrick Catalone. Inherent represented to MH that it is using extra space at the Catalone law firm temporarily while relocating. Counsel for MH performed a diligent inquiry into Inherent's claimed relocation and found that it was not listed in the San Francisco business directory. Inherent's relocation appears to be no more than an ingenious "forum shopping" attempt.

There is no connection to or relation between Inherent and California. Other than the uncertain claim that California is the state of Inherent's residence, California has no other interest or relation to the events giving rise to this dispute. More importantly, New Jersey courts in general and this Court are well-qualified to interpret and apply any state's laws as mandated by the NDA. Thus, the public interest weighs in maintaining the action here.

In the alternative, Inherent argues that the matter should be transferred to the District of Oregon because the state of Oregon is its former place of residence. Inherent states that it moved its business to California where the business has been or is in the process of being reestablished and that most if not all of its key employees have been relocated. To transfer the matter to the District of Oregon would not only require New Jersey witnesses to travel but also those who may now reside in California. All the evidence currently located in New Jersey and California would need to be transported to Oregon. Alternatively, if this Court retains venue, only one set of witnesses and evidentiary materials, documents and things would necessarily have to travel or be transported. Therefor, vesting venue in this Court is not only proper but logical, efficient and convenient.

CONCLUSION

For the reasons set forth above, Inherent's motion to dismiss or, in the alternative, transfer venue is hereby denied. The parties are to advise the Northern District of California of this ruling forthwith.

I will conducted an initial conference on November 22, 2005, at 10:00 a.m.

SO ORDERED.

s/ Ronald Hedges
HON. RONALD J. HEDGES, U.S.M.J.